

**TO: THE CHIEF EXECUTIVE OR MANAGING OFFICER OF ALL LOUISIANA STATE-CHARTERED BANKS AND THRIFTS**

**FROM: SID SEYMOUR, CHIEF EXAMINER**

**DATE: APRIL 30, 2009**

**RE: LOUISIANA OFFICE OF FINANCIAL INSTITUTIONS (OFI) UPDATE**

## **FINANCIAL PERFORMANCE**

**Overall Financial Condition** - As of 12-31-08, there were 160 banks and thrifts domiciled in the State of Louisiana, with 129 or approximately 81% being state-chartered. Our latest Economic Update has been posted to our website, [www.ofi.louisiana.gov](http://www.ofi.louisiana.gov), and may be accessed by either clicking the bank or thrift links, and the OFI Financial Reports – 12-31-08. As you will see, Louisiana-domiciled banks and thrifts performed very well compared to banks and thrifts on a nationwide basis. Net income for 2008 declined due primarily to increased loan loss provisions and non-interest expense. However, earnings for 2008 were well above the national average. In 2008, Louisiana-domiciled banks and thrifts reflected one of the lowest percentages of unprofitable institutions -- 6.25% compared to 23.59% on a nationwide basis.

Asset quality reflected some further slippage, with non-current loans and non-performing assets both increasing from the previous year. However, the ratios to total loans and total assets, respectively, remain below the national averages, with the gap between these two groups widening over the year. Net charge-offs also increased in 2008 in both dollar amount and a percent of total loans. As with nonperforming assets, the net charge-off ratio remains below the national average with the gap between the two also increasing. During 2008, the Tier 1 (core) and Tier 1 Risk-Based capital ratios reflected modest increases, while two of the three capital ratios declined on a nationwide basis. The ratio of net loans to deposits increased from the previous year but remains below the national average. However, the gap between the two narrowed, as this ratio declined on a nationwide basis.

**Banks** - For Louisiana-domiciled banks, there was a moderate increase in total assets, total deposits, and Tier 1 (core) capital in 2008. Core deposits, as a percent of total deposits and borrowed money, reflected a modest decrease in 2008 as total borrowings increased at a faster rate than core deposits. Although net income declined from the previous year due to a significant increase in provisions for loan losses and increased non-interest expenses, earnings were well above the national average. Tier 1 (core) capital grew faster than average assets during 2008, resulting in an increase from the previous year. All capital ratios for Louisiana-domiciled banks remain well above regulatory minimums and national averages. During 2008, non-current loans and non-performing assets both increased, causing the ratios to loans and total assets, respectively, to also increase. However, both of these ratios were below the national average. There was also a significant increase in net charge-offs from the prior year; however, this ratio also remains well below the national average. The ratio of net loans to deposits increased in 2008, as net loans grew at a faster rate than deposits and is now above the national average which declined during the year.

**Thrifts** - For Louisiana-domiciled thrifts, there was a moderate increase in total assets, total deposits, and Tier 1 (core) capital in 2008. Core deposits, as a percent of total deposits and borrowed money, reflected a modest decrease as core deposits increased at a slower rate than non-core deposits and borrowed money, consisting primarily of FHLB advances. Net income declined modestly in 2008, primarily because of increased loan loss provisions, which were also negative for the prior year. The average ROAA remained positive but declined slightly, while thrifts nationwide reported a negative average ROAA. While declining from the previous year, all capital ratios remained well above regulatory minimums and national averages. Non-current loans and nonperforming assets increased substantially during 2008; however, as a percent of total loans and total assets,

respectively, these ratios remain at manageable levels and substantially below the national averages. Net charge-offs increased in 2008, but the level of net charge-offs to total loans is considered acceptable and does not raise significant regulatory concerns. The ratio of net loans to deposits increased in 2008, as net loans increased faster than total deposits but was below the national average, which declined during the year.

**CAMELS Ratings for ALL Banks and Thrifts Domiciled in Louisiana** - A great majority of Louisiana-domiciled banks and thrifts remain in sound financial condition. As of 12-31-08, approximately 93% of all Louisiana-domiciled banks and thrifts had composite ratings of 1 or 2.

## **LEGISLATION**

**2009 Fiscal Legislative Session** – This Office is introducing one bill in the ongoing Fiscal Legislative Session, HB 810, which incorporates the minimum standards and licensing requirements for non-bank mortgage originators that was enacted by Congress entitled the Secure and Fair Enforcement for Mortgage Licensing Act or the “S.A.F.E. Act” as part of the Federal Housing and Economic Recovery Act of 2008. The bill also provides for other changes to the Residential Mortgage Lending Act and the Louisiana Consumer Credit Law. The S.A.F.E. Act was established to increase uniformity of licensing standards across state lines, enhance consumer protection, and reduce fraud in the mortgage industry. Financial institutions and their employees are exempt from the licensure provisions of the proposed bill.

The following is a summary of what the legislation should accomplish:

- Amend the definition of a mortgage loan originator in conformity with the S.A.F.E Act;
- Eliminate exemptions, in conformity with the S.A.F.E. Act, that previously existed for individuals, i.e., employees of licensed lenders, non-profits, and insurance agencies;
- Require all licensed mortgage loan originators to complete 20 hours of pre-licensure education and pass a written national examination and Louisiana specific component;
- Require eight (8) hours of continuing education annually for license renewal;
- Disqualify applicants for mortgage loan originator licenses with felony convictions within seven (7) years and permanently for certain financially-related felonies or individuals who have ever had a loan originator license revoked;
- Require submission of personal history information and authorize background checks to determine the applicant’s financial responsibility, character, and general fitness;
- Establish a bonding requirement based upon loan origination volume in order to protect consumers;
- Require Annual Submission of a Mortgage Call Report including statistical data regarding mortgage loan originations;
- Incorporate other state “model” language and OFI enhancements not required by S.A.F.E. to establish standardization and feasible implementation of the S.A.F.E. Act, along with effective enforcement authority to investigate, examine, and conduct action with licensees.

Please contact General Counsel Sue Rouprich at 225/922-1028 or by email at [srouprich@ofi.louisiana.gov](mailto:srouprich@ofi.louisiana.gov) with any questions regarding this legislation.

## **LIQUIDITY/FUNDS MANAGEMENT**

**Liquidity Analysis and Planning** – We understand that some of our institutions are finding it somewhat difficult to perform comprehensive liquidity analysis and contingency planning as outlined in the expanded liquidity risk management guidance contained in Financial Institution Letter (FIL) 84-2008, issued by the FDIC on 8-26-08. Among the expectations set forth in the FIL, institutions using liability-based or off-balance sheet funding strategies, or having other complex liquidity risk exposures, should be measuring such risks using pro

forma cash flows/scenario analysis, and should have contingency funding plans. All of these are critical components of an effective liquidity risk management program and are fully discussed in the FIL. Examiners have noted the following deficiencies at some financial institutions:

- A lack of cash flow and liquidity gap analysis, and a need for enhanced contingency planning
- A need for better coordination of strategic planning and liquidity management
- An overdependence on outdated static liquidity and dependency ratios
- A failure to monitor risk-based capital ratios #

# Risk-based capital ratios are extremely important, because they are a determinant of a bank's Prompt Corrective Action (PCA) category. Financial institutions need to closely monitor their ratios and be aware of what the implications are of changes to their PCA category. For example, institutions falling below the "Well Capitalized" category are subject to restrictions on the use of brokered deposits and rates they may pay on such deposits pursuant to Part 337.6 of the FDIC Rules and Regulations.

Other liquidity/funds management risks, in addition to a possible PCA downgrade, might include the following:

- Reduced borrowing capacity and/or more restrictive borrowing terms ("collateral haircut") for a institution whose financial condition is deteriorating
- Excessive off-balance sheet commitments
- Reduced mortgage prepayments
- A decrease in cash flows in institutions with large volumes of non-performing assets
- Negative publicity and/or rumors in an institution's market area

**Liquidity/Funds Management Facilities** - In the aftermath of the recent national economic turmoil in the financial services industry, and considering the increased use of potentially volatile non-core funding options such as FHLB Advances, Brokered Deposits, and Quick Rate Internet-Based Certificates of Deposit by some of our financial institutions, it's imperative that Management and the Board of Directors become more involved in understanding potential liquidity risks. At a minimum, Management should be reviewing its internal identification, measurement, and monitoring of liquidity risks with the Board of Directors each month. Management should also develop a ***Liquidity Risk Management Framework*** with the following considerations:

- Clearly articulate a liquidity risk tolerance that is appropriate for its business strategy
- Prepare a dynamic liquidity analysis, which provides a view of the financial institution's sources and uses of funds beyond a single point-in-time. The analysis may include daily, weekly, 30-day, 60-day, and 90-day intervals as deemed necessary and appropriate
- Maturity distribution of certificates of deposits – both brokered and retail
- Rate analysis and retention estimates – covering all other deposit accounts
- Term and nature of FHLB lines of credit
- Federal Reserve lines of credit
- Unfunded loan commitments – discretionary vs. contractual
- Large corporate / public deposit relationships
- Excess deposit insurance (private) coverage
- Daily cash letter commitment
- Loan payment cash flows

In addition, the Board of Directors should establish a ***Contingency Funding Plan (CFP)*** that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. A CFP should outline procedures to manage a wide range of stress-related scenarios (such as deteriorating credit quality or accelerated deposit runoffs), establish clear lines of responsibility, and provide clear and concise initiation and escalation procedures. Finally, the CFP should be tested and updated regularly to ensure that it remains functional. Please

contact me directly at 225/925-4675 or by email at [sseymour@ofi.louisiana.gov](mailto:sseymour@ofi.louisiana.gov) with any questions in this regard.

**Use of Volatile/Special Funding Sources by Certain Financial Institutions** – On March 3, 2009, the FDIC issued FIL-13-2009 which outlines the actions directors and officers of weak financial institutions should take in ensuring that their institutions are being operated in a safe and sound manner. The FIL indicates that any financial institution with a supervisory rating of 3, 4 or 5 should limit balance sheet growth and take actions to improve its risk profile, while working to remedy any problems. Financial institutions that engage in growth strategies, especially those that are funded with volatile liabilities or temporarily expanded FDIC insurance or liability guarantees, will be subject to increased supervisory review and enforcement. The continuation of prudent lending practices generally would not be considered as increasing the financial institution's risk profile. You may wish to refer to <http://www.fdic.gov/news/news/financial/2009/fil09013.html#body> for more information.

## **HURRICANE PREPAREDNESS**

**Lessons Learned from Hurricane Gustav** – In an email dated September 9, 2008, we detailed some lessons learned from Hurricane Gustav. Since we are quickly approaching another hurricane season, we thought the following information was worth repeating:

(1) Government Emergency Telecommunication Service (GETS) and Wireless Priority Services (WPS) --We found these services to be very beneficial in getting our calls through immediately following the storm. Please consider registering for these priority services that are available to all financial institutions. Your entire staff is eligible!

### **Government Emergency Telecommunication Service (GETS)**

The Government Emergency Telecommunication Service (GETS) is a White House-directed emergency phone service provided by the National Communications System (NCS) in the Information Analysis and Infrastructure Protection Division of the Department of Homeland Security. GETS provides emergency access and priority processing in the local and long distance segments of the Public Switched Telephone Network (PSTN). It is intended to be used in an emergency or crisis situation when the PSTN is congested and the probability of completing a call over normal or other alternate telecommunication means has significantly decreased. GETS is accessed through a universal access number using common telephone equipment such as a standard desk set, STU-III, facsimile, modem, or wireless phone. A prompt will direct the entry of your PIN and the destination telephone number. Once you are authenticated as a valid user, your call is identified as an NS/EP call and it receives special treatment. [Note: Obtaining a GETS card is absolutely FREE!!!] More information regarding the GETS program can be found at <http://gets.ncs.gov/index.html>.

### **Wireless Priority Services (WPS)**

Wireless Priority Service (WPS) is the wireless complement to GETS. During times of emergencies, wireless service providers can experience congestion in their networks. Such congestion can severely curtail your ability to make calls with your cell phone. To facilitate the completion of critical calls during these high usage events, WPS enables you to access the next available wireless channel before non-subscribers. It is a priority access queuing system for wireless networks. The following carriers currently have this capability: Alltel, AT&T (formerly Cingular Wireless), Cellcom, Cellular South, Edge Wireless, SouthernLINC, Sprint Nextel, Sprint PCS, T-Mobile, and Verizon Wireless. More information regarding the WPS program can be found at <http://wps.ncs.gov>.

(2) Posting of Notices--After the storm passes and you have determined which facilities/branches can not be opened, consider posting signs on the closed facilities/branches directing customers to other opened facilities/branches in the area, or if you are waiving foreign ATM fees at any other ATM for a time, this information is helpful to customers as well.

(3) Script --State and federal regulators will be using a script when contacting depository institutions that we have determined are the most impacted after the storm so that you will be ready to answer their questions.

[NOTE: We **may** be able to help you get priority service to solve phone or connectivity problems, to restore electricity, or assist with generators or armored carriers.] When the examiners call you and before you conclude the call, please stress to them your **immediate needs**, and we will try to assist in any way possible.

(4) Correspondence by Email--Please include your institution's name and city of domicile on all return emails to this Office. On occasion, we could not determine which institution was sending an email when the email did not include a clear description of the sender. Many institutions have similar names or abbreviations for their names in their email address. Please use the following email address for all notifications to this office: [ofila@ofi.louisiana.gov](mailto:ofila@ofi.louisiana.gov)

#### PROCEDURAL REMINDERS AS STORM GETS CLOSER OR AFTER THE STORM:

(1) If you need to close an office in anticipation of a storm--

If any state-chartered financial institution finds it necessary to close any office as a precaution for the emergency, you may phone, fax, or e-mail a brief notice to this office in order to fulfill your statutory obligation under LSA-R.S. 6:128(C)(2).

Fax: (225) 925-4548, (225) 925-4524

Main Office phone number: (225) 925-4660; more specific phone nos. listed below

Preferred method of communication, if available--E-Mail: [ofila@ofi.louisiana.gov](mailto:ofila@ofi.louisiana.gov)

(2) If officers/managers evacuate prior to or after a storm--

If the officers/managers of any state-chartered financial institution have evacuated, please report your alternate contact information for customers and regulators and the status of your institution to us as soon as possible.

Our preferred method of communication, if available to you, is via email to [ofila@ofi.louisiana.gov](mailto:ofila@ofi.louisiana.gov).

#### Supplemental OFI Contact Information:

	<u>OFC. NO.</u>	<u>CELL NO.</u>	<u>EMAIL ADDRESS</u>
John Ducrest, Commissioner	225/922-2627	225/938-2009	<a href="mailto:jducrest@ofi.louisiana.gov">jducrest@ofi.louisiana.gov</a>
Sid Seymour, Chief Examiner	225/925-4675	225/747-0718	<a href="mailto:sseymour@ofi.louisiana.gov">sseymour@ofi.louisiana.gov</a>
John Fields, Deputy Chief Examiner	225/922-0633	225/747-0723	<a href="mailto:jfields@ofi.louisiana.gov">jfields@ofi.louisiana.gov</a>
Kerry Morris, Deputy Chief Examiner	225/925-4201	225/747-0722	<a href="mailto:kmorris@ofi.louisiana.gov">kmorris@ofi.louisiana.gov</a>
Richard Barnewold, Alexandria District Office Manager	318/487-5023	225/747-0725	<a href="mailto:rbarnewold@ofi.louisiana.gov">rbarnewold@ofi.louisiana.gov</a>
Judy Singleton, Baton Rouge District Office Manager	225/922-0366	225/747-0724	<a href="mailto:jlsingleton@ofi.louisiana.gov">jlsingleton@ofi.louisiana.gov</a>
Jim Rowland, Lafayette District Office Manager	337/262-5754	225/747-0726	<a href="mailto:jrowland@ofi.louisiana.gov">jrowland@ofi.louisiana.gov</a>
Dan Fuller, Monroe District Office Manager	318/362-5291	225/747-0727	<a href="mailto:dfuller@ofi.louisiana.gov">dfuller@ofi.louisiana.gov</a>
Burt Marlowe, New Orleans District Office Manager	504/846-6973	225/747-0728	<a href="mailto:bmarlowe@ofi.louisiana.gov">bmarlowe@ofi.louisiana.gov</a>
Marie Boucher, Shreveport District Office Manager	318/862-9706	225/747-0729	<a href="mailto:mboucher@ofi.louisiana.gov">mboucher@ofi.louisiana.gov</a>

(3) In the event of a catastrophic loss as a result of the storm--

In the event a state-chartered financial institution suffers the whole or partial loss of its main office or branch due to a hurricane or other natural disaster, it is unnecessary to seek the prior approval of this office in order to establish a temporary location to replace an existing branch or main office that has been damaged by this storm, and notice is given to this office, after-the-fact, of the creation of the temporary location and its municipal address. This will allow us to identify the location for record keeping purposes.

If you are closing a branch/facility for a limited time in order to complete repairs, you may notify this office and prominently post signs of your plans for restoration, alternate sites for customers to use, and potential timeframes for completion of the repairs without the express approval of this office.

In OFI Bulletin BL-02b-2006 (B,T), dated June 21, 2006, we requested and have compiled primary and secondary emergency contact information for your disaster recovery team that will only be used in the event that we have to deal with another wide-area disaster. The disaster recovery team is expected to maintain emergency contact information for the board and senior management. We will be sending each financial institution a notice to update its disaster recovery team information in May. If you have any questions, please contact Executive Staff Officer Donna Montagnino at (225) 922-2627 or by email at [dmontagnino@ofi.louisiana.gov](mailto:dmontagnino@ofi.louisiana.gov).

OFI has again been assigned to several emergency support functions within the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP). In the event that we have to deal with another wide-area disaster, we will receive information through the GOHSEP. This information will then be shared with the industry through various means including the following: frequent conference calls; emails; and postings to our website. We are currently participating in another series of Hurricane Preparation Meetings, hosted by the Louisiana Bankers Association (LBA), at various locations throughout the State of Louisiana. Please contact me directly at 225/925-4675 or by email at [ss Seymour@ofi.louisiana.gov](mailto:ss Seymour@ofi.louisiana.gov) with any questions in this regard.

## **ACCOUNTING ISSUES**

**Guidance on Other Real Estate** – As a result of continuing weaknesses in the housing markets and escalating foreclosure rates in many parts of the country, financial institutions are seeing higher levels of other real estate (ORE). In order to address these concerns, the FDIC issued FIL-62-2008 on 7-1-08. This FIL contains guidance on accounting for and managing ORE. The guidance emphasizes the need for proper maintenance, reinforces the importance of protecting properties from further deterioration, addresses the need to obtain initial and updated valuations, and summarizes accounting and reporting standards at acquisition, throughout the holding period, and at disposition. While this is not a significant problem for Louisiana-domiciled financial institutions at this time, we would encourage you to become familiar with the contents of FIL-62-2008. State-chartered financial institutions may lawfully take possession and hold ORE pursuant to LSA – RS: 6:243 of the Louisiana Banking Law. The property should be entered on your books at the lower of fair market value or acquisition cost, which requires a well-documented estimate of value or appraisal.

**Deferred Tax Assets** - If your financial institution's deferred tax asset account is greater than 10% of Tier One Capital, it may be limited for regulatory capital purposes. Please refer to the Call Report instructions for item 9.b of Schedule RC-R for more information on this calculation.

**Fannie Mae and Freddie Mac Preferred Stock** - Financial institutions that hold Fannie Mae and Freddie Mac preferred stock should account for losses associated with these investments in accordance with the Interagency



Statement on the Regulatory Capital Impact of Losses on Fannie Mae and Freddie Mac Preferred Stock issued on 10-24-08. This Interagency Statement is attached to FIL-112-2008.

Mrs. Dale Jacobs, our staff CPA, is available to assist you with any accounting issues or questions and can be reached at 225-922-0632, or [djacobs@oflouisiana.gov](mailto:djacobs@oflouisiana.gov).

## **OTHER ISSUES AND/OR TOPICS OF INTEREST**

**Concentrations in Commercial Real Estate (CRE) Lending** – Since we continue to have a number of state-chartered financial institutions with significant levels of CRE concentration risk, we wanted to remind you that it's very important that your management information system (MIS) is correctly programmed in order to properly identify owner-occupied versus non-owner-occupied CRE for Call Report purposes. Again, institutions should perform their own assessment of CRE concentration risk in their lending portfolios. Institutions that exceed certain CRE concentration thresholds are expected to have more sophisticated risk management practices, procedures, and processes in place in order to properly monitor such risk on an ongoing basis. Examiners will continue to review institutions' CRE concentration risk at future examinations and through the off-site monitoring process. If you have not already done so, please take the time to become familiar with the following CRE pronouncements that have been issued by the FDIC over the last few years:

<http://www.fdic.gov/news/news/financial/2006/fil06104.html>.

<http://www.fdic.gov/news/news/financial/2008/fil08022.html>

**Private Rating Companies** – We continue to receive calls from the news media and some of our financial institutions concerning ratings/rankings that are being published by private companies. At least a dozen private rating/ranking companies currently analyze, rank, and rate financial institutions using neatly packaged and marketed products based on published Call Report information. Recently, msnbc.com published information on the “troubled asset” ratio of the 400 largest financial institutions in the country and on all financial institutions with high ratios. The “troubled asset” or “Texas” ratio measures non-current loans and OREO as a percentage of Tier 1 capital and reserves. Public and news media interest in such ratings/rankings, and the media's publication of its own analysis, are to be expected in a period of elevated stress in the financial services industry caused by an increase in the number of large, high profile banks, thrifts, and financial services companies that have failed over the last 15 months. The ratings/rankings provided by these private rating companies utilize various ratios and varying methodologies to quantify the relative financial strength of each financial institution. Then, they attempt to report these findings in a format that is simplified for public consumption. Specifically, ratings/rankings are easier to comprehend and easier for the news media to report.

If you are concerned about your customers' reaction to such publications, or possible negative coverage by the news media, you might want to consider providing your customers the following information:

- The private companies that provide such ratings/rankings are not the regulatory agencies that provide oversight of the financial services industry and lack critical qualitative and quantitative information about these financial institutions
- While such ratings/rankings might have relevance to a potential investor or creditor, customers should be reminded that insured depositors have never lost a penny in the 75 year history of the FDIC. Further, borrowers' loans continue to be serviced in the event of a failure
- A single ratio provides only limited information about the overall financial condition of a financial institution – no single ratio can accurately predict a failure
- A relatively low rating does not mean that regulatory intervention is likely. Rather, such a rating may

- simply indicate that certain performance factors were exceeded during a particular rating period
- A great majority of financial institutions are able to overcome problems with renewed commitment on the part of Management and the Board of Directors and closer regulatory oversight. Many of these financial institutions also have the ability to raise additional capital, cut expenses, sell assets, and seek merger partners

Management and the Board of Directors should be proactive in communicating with customers about federal deposit insurance. A depositor with questions should receive clear-cut, thorough answers and referred to the FDIC's website, if necessary. When a financial institution fails, it is a very trying and difficult experience for its employees, executive management, the Board of Directors and, of course, the stockholders. Fortunately, there is an orderly process in place to minimize the impact of the failure on its customers and the local economy. Typically, another institution assumes all of the bank's deposits and reopens its branches the next business day.

**Third Party Arrangement with Stanford Group Company** – We are working closely with various state and federal regulatory agencies and the court appointed Receiver relating to the investigation of Robert Allen Stanford and his related companies. The Receiver, who has seized control of Stanford-related assets pursuant to a federal court order, has been posting instructions for investors, clients, and customers of the various Stanford-related companies on the Stanford Receiver's web page at [www.stanfordfinancialreceivership.com](http://www.stanfordfinancialreceivership.com). Clients and investors may also direct questions to the Receiver via email to [info@stanfordfinancialreceivership.com](mailto:info@stanfordfinancialreceivership.com). If you have been using Stanford Group Company to provide retail non-deposit investment products to your customers, please contact me directly at 225-925-4675, or email [sseymour@ofi.louisiana.gov](mailto:sseymour@ofi.louisiana.gov).

**FDICconnect** – Our email system may not be secure if your institution is not using Transport-Layer Security (TLS). All confidential information submitted electronically to this Office should be sent through FDICconnect. Regardless of your institution's registration status, go to [www.fdic.gov](http://www.fdic.gov) and click the Quick Links for Bankers. On the Quick Links for Bankers page, you should see the link for FDICconnect. Once you click on the link, the FDICconnect Business Center will open and show you a number of links. These links will provide information on using this service, especially if your institution has not yet registered for its use.

If your institution is already registered, the system should allow designated employees to log in, establish a session to exchange information, and select the parties to whom you would like to send the information. At the present time, this Office has a number of employees that are registered users of FDICconnect -- simply select the appropriate party to send the information. If you have any questions, please contact Review Examiner Tim Robichaux at 225/922-0878 or by email at [trobichaux@ofi.louisiana.gov](mailto:trobichaux@ofi.louisiana.gov).

**Subscribe to Receive Regulatory Alerts Automatically** – You may register your email address to subscribe for regular notifications of regulatory alerts at [https://service.govdelivery.com/service/multi\\_subscribe.html?code=USFDIC](https://service.govdelivery.com/service/multi_subscribe.html?code=USFDIC) for the FDIC and <http://www.federalreserve.gov/generalinfo/subscribe/notification.htm> for the FRB.

**Information on the Conference of State Bank Supervisors' (CSBS) Website** – As mentioned in previous updates, you are again encouraged to periodically check out the CSBS website. Their weekly newsletter contains a great deal of useful information and will update you on the current matters affecting the state banking system. The direct link to the current newsletter is located at <http://www.csbs.org/Content/NavigationMenu/PublicRelations/CSBSExaminer/ExaminerMain.htm>.

Their homepage, <http://www.csbs.org>, contains numerous helpful links. Please contact Deputy Chief Examiner Kerry Morris at 225/925-4201 or by email at [kmorris@ofi.louisiana.gov](mailto:kmorris@ofi.louisiana.gov) with questions about CSBS' website or



for help accessing the information.

**Recent Examination Topics of Interest** – *Secured Public Deposits*—LSA-R.S. 39:1225 requires that public deposits be secured at all times equal to one hundred percent of the amount of collected funds on deposit except that portion of the deposits insured by any governmental agency insuring bank deposits. In addition, the requirements for a public fund to select a depository are included under LSA-R.S. 39:1220 and the requirements for the collateral to secure the deposits in included under LSA-R.S. 39:1221. Recently, we have discovered deficiencies of all these sections for such areas as unsecured public funds deposits, inappropriate collateral pledged as security, and public deposits in excess of the limit of 200% of the bank's capital stock, declared surplus, and undivided profits.

The Legislative Auditor's Office is aware that qualifying non-interest-bearing transaction accounts at financial institutions that have opted into the transaction account portion of the Temporary Liquidity Guarantee Program (TLGP) are fully insured by the FDIC at least through December 31, 2009. Qualifying non-interest-bearing transaction accounts include Interest on Lawyers Trust Accounts (IOLTAs) (and functionally equivalent accounts) and low-interest NOW accounts (defined as NOW accounts with interest rates no higher than 0.50 percent). The FDIC is currently maintaining a list of institutions that have opted out of each portion of the TLGP on its website, [www.fdic.gov](http://www.fdic.gov). In addition, lobby notices advising customers whether the institution is participating in the program are required, as well as website notices if the bank has on-line banking services.

We understand the Legislative Auditor's Office is concerned about the expiration date of the TLGP and is reminding public entities that they must ensure that their deposit accounts will remain fully insured or secured subsequent to 12-31-09. You can expect examiners to discuss this matter at upcoming examinations. While the TLGP may be extended, no final decision has been made at this time. We understand that the Legislative Auditor's Office has also questioned whether reciprocal accounts under the Certificate of Deposit Account Registry Service (CDARS) are actually domiciliary accounts as required by LSA-R.S. 39:1220. While they are being treated as such at this time, the Legislative Auditor's Office has requested a legal opinion from the Attorney General's Office in this regard. They have promised to share the legal opinion with us, and we'll keep you posted.

**Closing Comments** – Again, we are always looking for recommendations to improve the manner in which we conduct examinations and better serve our constituents. If you have noticed an area which needs improvement, please let me know. We truly want to be a resource to you and your institution. You can call me directly at 225-925-4675, or email [sseymour@ofi.louisiana.gov](mailto:sseymour@ofi.louisiana.gov).